

**BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554**

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FEDERAL COMMUNICATIONS COMMISSION

**In the Matter of
Allocation of Costs Associated with
Local Exchange Carrier Provision of
Video Programming Services**

CC Docket No. 96-112

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**INITIAL COMMENTS OF
NATIONAL ASSOCIATION OF REGULATORY UTILITY COMMISSIONERS**

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Pursuant to the Federal Communications Commission's ("FCC" or "Commission") Rules of Practice and Procedure, 47 C.F.R. §§ 1.49, 1.415, and 1.419 (1995), the National Association of Regulatory Utility Commissioners ("NARUC")¹ respectfully files these comments addressing the "Notice of Proposed Rulemaking" ("*NPRM*") released in the above captioned proceeding May 10, 1996 [FCC 96-214 - 61 Federal Register 25184 (May 20, 1996)].

¹ NARUC is a quasi-governmental nonprofit organization founded in 1889. Members include the public service commissions from all fifty States, the District of Columbia, Puerto Rico, and the Virgin Islands. These commissions are charged with regulating, inter alia, communications common carriers operating within their respective borders. In that capacity, they must assure that those services and facilities required by the public convenience and necessity are established. NARUC also nominates state commission members to the Federal-State Joint Boards as specified in § 410 and § 254 of the Communications Act. NARUC actively represents the interests of its membership both in Joint Board proceedings and other FCC dockets impacting state regulatory initiatives. NARUC also collaborates with the FCC's Common Carrier Bureau (CCB) in matters of common interest. See, 47 C.F.R. § 0.91 (c), which states that one of the "functions" of the CCB is to "[c]ollaborate with representatives of state...commissions and with the National Association of Regulatory Utility Commissioners in cooperative studies of common carrier and related matters."

DISCUSSION

On April 1, 1996, NARUC filed comments in addressing the related "Report and Order and Notice of Proposed Rulemaking" released In the Matter of Implementation of Section 302 of the Telecommunications Act of 1996 Open Video Systems, CS Docket No. 96-46, March 11, 1996 [FCC 96-99].² In that pleading, NARUC, inter alia, asks the FCC to (i) immediately initiate a joint board to address cost allocation/separations issues raised by that rulemaking and "other" broadband services, and (ii) monitor the LEC provisioning of video programming and video services with regards to orders for services, pole attachments and video channel capacity.

In this proceeding, the FCC is finally seeking to impose long overdue revisions to its cost allocation rules dealing with video services. Specifically, the FCC is seeking to revise current rules for allocating local loop, switching plant and interoffice trunk facilities used by both regulated and unregulated services. NARUC supports the Commission's recognition of the inadequacy of the existing cost allocation regulations.³ Indeed, under current allocation practice, after Part 64 procedures are employed, as much as 75% of all Open Video Systems ("OVS") related investment and expenses could potentially be attributed to intrastate regulated operations via Part 36. The *NPRM* also seeks to "ensure", as mandated under Section 254(k) of the 1996 Act that incumbent local exchange carriers do 'not use services that are not competitive to subsidize services that are subject to competition.'" Unfortunately, the notice fails to recognize

² Cf., Telecommunications Act of 1996 ("1996 Act"), Pub. L. No. 104-104, 110 Stat. 56, approved February 8, 1996.

³ The *NPRM* recognizes in ¶ 20, mimeo at 10, that an over-allocation of common costs to regulated activities would cause regulated ratepayers to bear more costs that they would had the shared-use facilities not been built.

that the same policy reasons compelling needed changes to Part 64 also require changes to the Part 36 separations procedures. Indeed, § 254(k) also imposes explicit duties on State commissions with respect to costs assigned to the intrastate jurisdiction under Part 36 and raises issues that must be examined by the current § 254 Joint Board.

NARUC has not had an opportunity to adopt a formal position specifically addressing this *NPRM*. However, based on a number of previous resolutions, a few relevant generic NARUC positions on LEC provision of video services can be derived. Copies of these earlier resolutions are attached. In the resolutions, NARUC, inter alia.

- (1) Urges the FCC to refer the jurisdictional allocation of "video" costs to a Federal State Joint Board for consideration and recommendation;
 - (2) Contends that if a local exchange carrier chooses to provide video programming directly to subscribers in their telephone service areas, such services should be provided by separate subsidiaries or with adequate accounting safeguards to protect customers of basic telephone services from subsidizing this new service market.
- A. THE PROPOSAL TO ALLOCATE COMMON COSTS ON THE BASIS OF FIXED FACTORS IS GENERALLY IN ACCORD WITH NARUC RESOLUTIONS SEEKING ADEQUATE ACCOUNTING SAFEGUARDS TO PROTECT CUSTOMERS OF BASIC TELEPHONE SERVICES FROM SUBSIDIZING COMPETITIVE SERVICES.**

The *NPRM* proposes allocating common costs on the basis of fixed factors, suggesting, that the

"...rules will intentionally allocate a significant part of common costs to nonregulated services. This is appropriate because we believe that telephone ratepayers are entitled to at least some of the benefit of the economy of scope between telephony and competitive services. Additionally, because cost allocation is inevitably imperfect, a policy of allocating all common costs to telephony would pose a significant risk that telephone ratepayers would pay more than stand-alone costs, and would thus be cross-subsidizing the incumbent local exchange carriers' competitive operations in violation of the Act." *NPRM* at ¶ 23, mimeo at 12.

NARUC agrees that the scope efficiencies resulting from network integration upgrades should not accrue solely to the competitive ventures of the local exchange carrier. Through decades of monopoly service, LEC ratepayers have underwritten the research and development enabling the creation of a valuable backbone network which will be used in the future to provide not only phone services but also video. The NPRM proposal to allocate common costs on the basis of fixed factors is generally in accord with NARUC resolutions.

In addition, we agree generally that "Congress did not intend that telephone exchange service...subscribers pay rates designed to recover the costs of spare capacity that eventually will be used for video programming and other services that may be competitive." *NPRM* at ¶ 53, mimeo at 21.

B. REQUEST TO INSTIGATE THE PREVIOUSLY POSED "BROADBAND" JOINT BOARD PROCEEDING.

Significantly, the 1996 Act did not eliminate 47 U.S.C. § 410(c) or § 152(b). Section 410(c) requires the FCC to refer formal rulemakings impacting separations procedures to a Federal-State Joint Board. As this proceeding implicitly acknowledges, unless a physically separate dedicated cable facility is used, with a completely separate administrative support base, OVS and related services raise joint cost issues. Although some of the proposals in this Notice make significant progress in addressing cross-subsidy questions, none eliminate the need to immediately examine the FCC's Part 36 procedures to, inter alia, make compensating changes. Moreover, the need to deal with the separations implications of any Video Dial Tone systems grandfathered under the Act remains.

NARUC is on record in numerous proceeding as recommending that the jurisdictional allocation of video costs be referred to the existing separations joint board. Indeed, in the *VDT Reconsideration Order*, 10 FCC Rcd 244 (1994), the FCC conceded that video service-related separations impacts are possible by requiring the Bureau to monitor to see if any impact "on intrastate local telephone rates occur." In that order, the FCC also said it will open "an inquiry proceeding focusing on a matter of paramount concern to both federal and state regulators--the implications for the jurisdictional separations process of the introduction of new technologies, including broadband technology, into the local exchange network." *VDT Reconsideration Order* at ¶¶ 186 and 190.

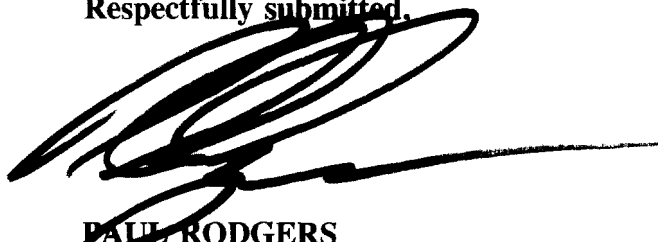
NARUC respectfully suggests that the need for the "broadband" joint board proceeding proposed in the *VDT Reconsideration Order* has not diminished. A review of NARUC's resolutions strongly suggest that, as part of the examination of cost allocation issues in the Part 64 proceeding proposed in this docket, the FCC should refer related separations issues to a Joint Board.

Indeed, Section 254(k) requires the FCC "with respect to interstate services, and the States, with respect to intrastate services," to establish any necessary cost allocation rules, accounting safeguards, and guidelines to ensure that services included in the definition of universal service bear no more than a reasonable share of the joint and common costs of facilities used to provide those services." NARUC respectfully suggests that appropriate corresponding adjustments to the separations procedures are implicated by this proceeding and are needed to allow State commissions to meaningfully address their § 254(k) duties.

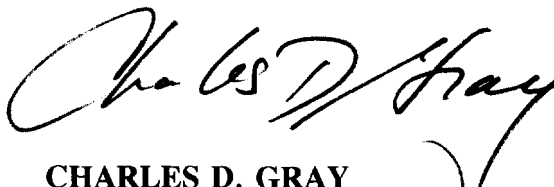
CONCLUSION

NARUC respectfully requests that the FCC immediately instigate a "broadband" joint board proceeding to examine the separations impacts of the new OVS regime and incorporate the recommendations discussed, supra, in any final order issued in this docket.

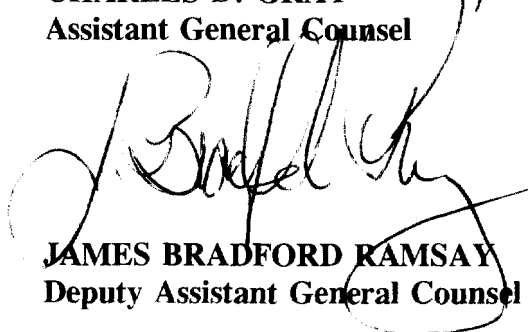
Respectfully submitted,



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APPENDIX

NARUC RESOLUTIONS

**Resolution Concerning the FCC's
Fourth Further Notice of Proposed Rulemaking in Docket No. 87-266**

WHEREAS, The Federal Communications Commission's (FCC) Fourth Further Notice of Proposed Rulemaking (FNPRM), Docket No. 87-266, released on January 20, 1995, seeks comments on telephone companies' provision of video programming to subscribers over their own video dialtone systems; and

WHEREAS, The FCC's tentative conclusion is that telephone companies' provision of video programming through their own video dialtone platforms should be subject to Title II regulation, rather than Title VI regulation, which applies to cable TV companies; and

WHEREAS, The FCC also is considering whether it should adopt additional safeguards to guard against anti-competitive conduct or cross subsidization, including separate subsidiary and accounting requirements for telephone company provision of video programming;

WHEREAS, The FNPRM further seeks comment on issues concerning reasonable access to pole or conduit space at reasonable charges and without undue restrictions on the use of pole or conduit space and facility capacity, functionalities and necessary billing arrangements to allow multiple providers access to users/customer;

WHEREAS, The FCC also calls for an inquiry on cross subsidy issues related to the introduction of new technologies into local exchange carrier networks, including video dialtone, and the offering of new services, including video programming; and

WHEREAS, These video programming and video dialtone issues are the subject of debate before Congress in the context of federal telecommunications reform legislation; and

WHEREAS, The National Association of Regulatory Utility Commissioners (NARUC) Staff Subcommittee on Communications has conducted a survey of state regulators views on video dialtone service, held a workshop on video dialtone cost allocations and reviewed parties' positions; and

WHEREAS, The workshop demonstrated that industry providers are using, or proposing to use, different methodologies to account for and recover costs, and jurisdictionally allocate video dialtone costs; and

WHEREAS, The NARUC adopted a resolution in July 1994 urging federal-state cooperation in addressing uniform technical standards for interconnection and jurisdictional cost allocation issues associated with the provision of video dialtone and integrated broadband services; and

WHEREAS, The Federal Pole Attachment Act (Section 224 of the Communications Act of 1934) gives a state jurisdiction over the rates, terms and conditions of cable television system attachment to poles, ducts, conduits or rights-of-way owned or controlled by a utility if the state has certified to the FCC that such attachments are regulated in a way which considers the interests of cable television subscribers as well as the interests of utility customers; and

WHEREAS, Certain states have made such certifications and do presently have jurisdiction over cable system pole attachments; and

WHEREAS, The states have a continuing interest in ensuring that control over pole attachments and conduit space is not used in an anti-competitive manner; now, therefore, be it

RESOLVED, That the Executive Committee of the National Association of Regulatory Utility Commissioners (NARUC), convened at its 1995 Winter Committee Meetings in

Washington D.C., reiterates its recommendation that the FCC refer the jurisdictional allocation of video dialtone costs to a Federal State Joint Board for consideration and recommendation; and be it further

RESOLVED, That the NARUC supports telecommunications legislative and regulatory initiatives that would require all providers of common carrier services to be subject to common carrier regulation; and be it further

RESOLVED, That if a local exchange carrier chooses to provide video programming directly to subscribers in their telephone service areas, such services should be provided by separate subsidiaries or with adequate accounting safeguards to protect customers of basic telephone services from subsidizing this new service market; and be it further

RESOLVED, That reporting requirements be implemented to monitor the LEC provisioning of video programming and video dialtone services with regards to bona fide held orders for services, pole attachments and video channel capacity; and be it further

RESOLVED, That the NARUC General Counsel be directed to provide comments in the FCC proceeding to effectuate this resolution.

Sponsored by the Committee on Communications - Adopted March 1, 1995

**Resolution Concerning the FCC's Third Further Notice of Proposed Rulemaking
in Docket No. 87-266 and Forthcoming Notice of Inquiry on New Technologies
(Including Video Dialtone)**

WHEREAS, The Federal Communications Commission's (FCC) Memorandum Opinion and Order on Reconsideration and Third Further Notice of Proposed Rulemaking (FNPRM), Docket No. 87-266, released on November 7, 1994, seeks comments on several outstanding issues related to the implementation of video dialtone; and,

WHEREAS, The Memorandum Opinion and Order also calls for an inquiry proceeding to focus on the implications for the jurisdictional separations process of the introduction of new technologies, including video dialtone, into local exchange carrier networks; and

WHEREAS, The National Association of Regulatory Utility Commissioners (NARUC) Communications Subcommittee has conducted a survey of state regulators views on video dialtone service, held a workshop on video dialtone cost allocations and reviewed parties' positions; and

WHEREAS, The workshop demonstrated that industry providers are using, or proposing to use, various inconsistent methodologies to jurisdictionally allocate video dialtone costs; and

WHEREAS, Uniform national technical, accounting and cost recovery standards for interconnection must be in place and enforced if there is to be any possibility of multiple providers of broadband services in a competitive marketplace; and

WHEREAS, The cost of deploying a nationwide broadband communications network should be allocated between the federal and state jurisdiction, as well as between regulated and non-regulated services, in an equitable and efficient manner; and

WHEREAS, The determination of whether intrastate investment by local exchange carriers is necessary and prudent properly resides with state Commissions, who must ensure that

subscribers of basic services do not unnecessarily underwrite the costs of non-basic facilities; and

WHEREAS, The major portion of the plant of telephone companies is used commonly for both intrastate and interstate services, and a major portion of the telephone company's expense is incurred in the joint rendition of these services; and

WHEREAS, The Federal Pole Attachment Act (section 224 of the Communications Act of 1934) gives a state jurisdiction over the rates, terms and conditions of cable television system attachment to poles, ducts, conduits or right-of-way owned or controlled by a utility if the state has certified to the FCC that such attachments are regulated in a way which considers the interests of cable television subscribers as well as the interests of utility customers; and

WHEREAS, Certain states have made such certifications and do presently have jurisdiction over cable system pole attachments; and

WHEREAS, The Third FNPRM seeks comment on whether LECs seeking to provide video dialtone service should be required to show in their video dialtone applications that video programmers have available reasonable access to pole or conduit space at reasonable charges and without undue restrictions on the use of pole or conduit space; and

WHEREAS, The states have a continuing interest in ensuring that control over pole attachments and conduit space is not used in an anti-competitive manner; and

WHEREAS, The FCC currently prohibits the acquisition by telephone companies of cable facilities in their service area for provision of video dialtone; and

WHEREAS, The FCC has recognized that some markets may be incapable of supporting two video delivery systems and that in these markets the prohibition may serve little useful purpose and that the prohibition in these markets would therefore effectively preclude the establishment of video dialtone service, thereby denying consumers the benefits of a common carrier video transmission facility capable of serving multiple video programmers; and

WHEREAS, The Third FNPRM seeks comments on whether the prohibition should be amended so that LECs would be permitted to purchase cable facilities in markets that meet certain criteria; and

WHEREAS, The states have a compelling interest in ensuring that consumers are able to benefit from the provision of video services while not being unduly disadvantaged by their location or the potential inability of the market to support two wire-based multi-channel video delivery systems; and

WHEREAS, The Third FNPRM seeks comments on whether the FCC legally can. and should, mandate preferential video dialtone access or rates for certain classes of programmers, or whether to permit LECs voluntarily to provide preferential treatment to certain programmers such as noncommercial educational programmers; and

WHEREAS, Some states have already addressed the issue of promoting telecommunications applications in education in various ways, including through the use of preferential rates; and

WHEREAS, The Subcommittee on Communications has initiated a process to comprehensively address the issues raised in the Third FNPRM between now and the Winter Meetings in February 1995 and will be prepared to present a policy position for consideration by the Committee on Communications; now, therefore, be it

RESOLVED, That the Executive Committee of the National Association of Regulatory Utility Commissioners (NARUC), convened at its 106th Annual Meeting in Reno, Nevada, reiterates its recommendation that the FCC refer the jurisdictional allocation of video dialtone costs to the Federal State Joint Board for consideration and recommendation; and be it further,

RESOLVED, That the FCC, through the Federal State Joint Board process, create jurisdictional separations and cost allocation procedures for VDT to be consistently applied by the industry; and be it further,

RESOLVED, That the NARUC intends to fully address the jurisdictional separations issues regarding video dialtone service and other new technologies in the forthcoming Notice of Inquiry; and be it further,

RESOLVED, That the NARUC General Counsel be directed to request a limited extension of time until March 31, 1995 for the submission of comments in CC Docket No. 87-266 to address all of the issues raised in the Third FNPRM; and be it further,

RESOLVED, That the NARUC General Counsel be directed to provide comments in the FCC proceeding to effectuate this resolution.

Sponsored by the Committee on Communications

Adopted November 16, 1994

Resolution Concerning Video Dialtone Network Development

WHEREAS, The Federal Communications Commission's (FCC) decisions regarding video dialtone, described in its Further Notice of Proposed Rulemaking, First Report and Order, and Second Notice of Inquiry in CC Docket No. 87-266, are intended to make alternative facilities available for the distribution of video programming and other broadband services, in order to benefit consumers by providing them with additional choices; and

WHEREAS, In April of 1994, the NARUC and others submitted comments and filed petitions for reconsideration of the FCC's proposed rules and preemption of state authority in CC Docket No. 87-266; and

WHEREAS, The FCC has several video dialtone Section 214 applications pending;

WHEREAS, The FCC approved New Jersey Bell's video dialtone application without prescribing specific jurisdictional cost allocations and adequate monitoring provisions, although the FCC apparently will require the establishment of subsidiary accounting records to identify and submit quarterly reports on the revenues, investments, and expenses associated with video dialtone service; and

WHEREAS, Uniform national technical standards for interconnection must be in place and enforced in order to assure that multiple video providers are able to effectively compete; and

WHEREAS, The FCC must address through a Joint Board jurisdictional separations and cost allocations in conjunction with video dialtone offerings and other broadband services; and

WHEREAS, In April of 1993 the National Cable Television Association (NCTA) and Consumer Federation of America (CFA) jointly petitioned, and CFA later petitioned again in 1994, for the FCC to convene a rulemaking and a joint board to address and resolve these issues; and

WHEREAS, There is a need to collect basic industry information in a consistent format on the customer benefits derived from the video dialtone and integrated broadband investments of all providers of video services; and

RESOLVED, The National Association of Regulatory Utility Commissioners (NARUC), convened at its Summer Meeting in San Diego, California, continues to support the deployment of this new technology in a reasonable manner.

RESOLVED, The FCC should electronically collect from all providers of video dialtone and integrated broadband services a minimum level of quantitative information, such as is filed in the Automated Reporting Management Information System (ARMIS) and to include, at a minimum, the following:

- Financial information in a simple income and balance sheet;
- Market demographics, including number of programmers using the system, number of customers served, number of customers passed, and number of non-subscribers by major category of services;
- Detailed statistics on service quality, including number and type of customer complaints (down time, loss of signal, interference, etc.);
- System capabilities, such as number of channels, bandwidth availability, fiber/copper deployment; and
- A detailed description of common/private carrier type services provided by the video dialtone provider; and be it further

RESOLVED, That the FCC should make available all such information to state commissions on a computer accessible dial-up data basis and furthermore, the FCC should make available to the public through the FCC CC Docket 87-339 Monitoring Report all information except that information protected from disclosure by law or FCC rule; and

RESOLVED, That the FCC should work cooperatively with the state regulatory agencies and franchising authorities to develop uniform technical standards for interconnection for video dialtone and integrated broadband services; and

RESOLVED, That the FCC should refer the video dialtone jurisdictional cost allocation issues, including the need to assure that there is no jurisdictional mismatch between allocation of revenues and costs, to a Joint Board; and be it further

RESOLVED, That the FCC should work cooperatively with the states to revise all the relevant rules to ensure that video dialtone service does not result in unreasonable cross subsidization; and be it further

RESOLVED, That the FCC complete a proceeding to resolve these issues within the next twelve (12) months based on NARUC's recommended joint governance procedures as described in NARUC's proposed amendments to S.1822; and

RESOLVED, That the NARUC General Counsel initiate and/or pursue any appropriate and necessary actions to effectuate the intent of this Resolution.

**Resolution Concerning the FCC's Automated
Report Management Information System (ARMIS)**

WHEREAS, The Federal Communications Commission (FCC), on September 17, 1987, released a Report and Order for the purpose of establishing an automated system for collecting financial and operating data in order to facilitate the timely and efficient analysis of revenue requirements and rates of return, and to enhance the FCC's ability to quantify the effects of alternative policy proposals; and

WHEREAS, The ARMIS report is one of the safeguards established by the FCC to monitor the accounting separations of regulated and non-regulated joint costs and jurisdictional shifts between state and interstate for companies choosing the price cap form of regulation in the interstate jurisdiction; and

WHEREAS, The FCC has modified its accounting rules to reflect changes in joint costs, tax allocations, litigation expense, pay telephone expenses and settlement expenses but has not made the necessary changes to reflect new organizational structures and technological changes; and

WHEREAS, The costs of specialized network components must be placed in existing Part 32 accounting codes and in some cases, the assignments are arbitrary and at the discretion of the LECs; and

RESOLVED, That the Executive Committee of the National Association of Regulatory Utility Commissioners (NARUC), convened at its 106th Annual Meeting in Reno, Nevada, continues to support the FCC Report and Order establishing ARMIS and its reporting requirements but requests that the FCC undertake an effort to update the reporting requirements to reflect industry changes; and be it further

RESOLVED, That the Subcommittee on Communications continue to work on the ways to utilize the ARMIS mechanism and consult with the Staff Subcommittee on Accounts to determine appropriate utilization of ARMIS; and be it further

RESOLVED, That the Subcommittee on Communications work with the FCC to identify and specify the changes that are needed; and be it further

RESOLVED, That the Subcommittee on Communications continue to work with the industry to seek ways to use ARMIS to reduce or replace other existing reports that are currently being filed; and be it further

RESOLVED, That the NARUC General Counsel file a copy of this resolution with the FCC in the most appropriate way and take any action necessary to carry out the intent of this resolution.

**Sponsored by the Committee on Communications
Adopted November 16, 1994**

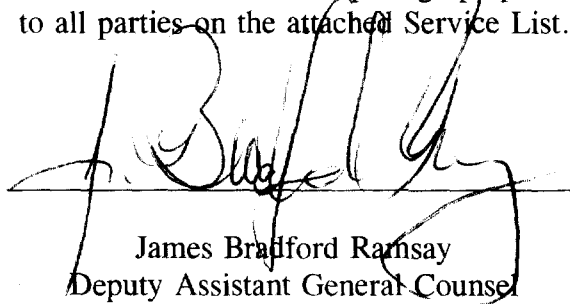
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CERTIFICATE OF SERVICE

I, JAMES BRADFORD RAMSAY, certify that a copy of the foregoing was sent by first class United States mail, postage prepaid, to all parties on the attached Service List.



James Bradford Ramsay
Deputy Assistant General Counsel

National Association of
Regulatory Utility Commissioners

May 28, 1996